

CITY OF STEPHENSON  
REPORT ON FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION  
YEAR ENDED JUNE 30, 2006

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF STEPHENSON	County MENOMINEE
Audit Date JUNE 30, 2006	Opinion Date JULY 21, 2006	Date Accountant Report Submitted to State: JULY 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

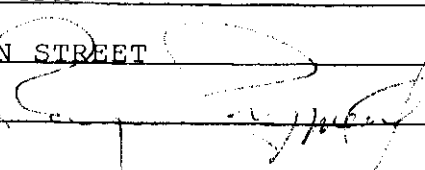
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) RAY PAYMENT, CPA			
Street Address 617 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 			

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July 21, 2006

INDEPENDENT AUDITOR'S REPORT

Honorable City Council  
City of Stephenson  
Stephenson, Michigan

I have audited the combined financial statements of the City of Stephenson as of June 30, 2006, and the related statements of revenues and expenditures and fund balances for the year then ended. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.


Management has not presented government-wide statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the City's governmental activities and business-type activities are not reasonably determinable.

In my opinion, except for the effects of the omission of the government-wide statements, as discussed above, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the various funds of the City of Stephenson at June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

July 21, 2006

In accordance with Government Auditing Standards, I have also issued my report dated July 21, 2006 on my consideration of the City of Stephenson's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The financial statements referred to in the foregoing opinion are identified in the contents of this report. My examination was made primarily for the purpose of rendering an opinion on these basic financial statements, taken as a whole. The supplementary financial data identified in the contents, although not considered necessary for a fair presentation of the assets and liabilities of the various funds of the City of Stephenson at June 30, 2006 is presented primarily for supplement analysis purposes. This additional information has been subjected to the audit procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Ray L. Payment  
Certified Public Accountant

CITY OF STEPHENSON  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2006

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 303 954	\$ 74 783
Accounts receivable	109	-
TOTAL CURRENT ASSETS	<u>304 063</u>	<u>74 783</u>
PROPERTY, PLANT & EQUIPMENT (Note 1):		
Land	-	-
Plant and equipment	-	-
Total	-	-
Less accumulated depreciation	-	-
NET Property, Plant and Equipment	-	-
OTHER ASSETS:		
Restricted Assets - Funded Equipment Cash	47 698	-
- Metro Act Cash	8 586	-
Bond Reserve Account	-	-
TOTAL ASSETS	<u>\$ 360 347</u>	<u>\$ 74 783</u>
<u>LIABILITIES AND FUND EQUITY:</u>		
LIABILITIES:		
Accounts payable	\$ 8 732	\$ 1 253
Payroll taxes withheld & due govt. units	-	-
Customer deposits	-	-
Bonds payable	-	-
TOTAL LIABILITIES	<u>8 732</u>	<u>1 253</u>
FUND EQUITY:		
INVESTMENT IN GENERAL FIXED ASSETS	-	-
FUND BALANCES AND RETAINED EARNINGS - UNRESTRICTED	295 540	73 530
FUND BALANCES AND RETAINED EARNINGS - RESTRICTED	<u>56 075</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 360 347</u>	<u>\$ 74 783</u>

See notes to financial statements.

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Groups General Fixed Assets</u>
<u>Utility Funds</u>	<u>Trust &amp; Agency</u>	
\$ 841 042	\$ 9 739	\$ -
70 106	-	-
911 148	9 739	-
12 600	-	-
2 803 727	-	874 809
2 816 327	-	874 809
( 805 839)	-	-
2 010 488	-	874 809
252 324	-	-
-	-	-
48 180	-	-
\$ 3 222 140	\$ 9 739	\$ 874 809
\$ 52 762	\$ -	\$ -
-	339	-
-	9 400	-
851 000	-	-
903 762	9 739	-
-	-	874 809
2 017 874	-	-
300 504	-	-
\$ 3 222 140	\$ 9 739	\$ 874 809

CITY OF STEPHENSON  
COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2006

	General Fund	Special Revenue Funds	Proprietary Fund Type
REVENUES:			
Property taxes - Current	\$ 53 624	\$ -	\$ -
- Collection Fees	5 198	-	-
- Delinquent	5 731	-	-
State shared taxes	74 720	-	-
State grants - Motor Vehicle			
Highway Fund	-	88 573	-
Liquor law enforcement	-	613	-
Interest	7 024	1 499	29 642
Parking and City fines	574	-	-
Other reimbursements & misc.	3 156	485	17 579
Services rendered and rents	12 045	-	8 475
Utilities collections	-	-	734 775
Metro act	8 297	-	-
TOTAL REVENUES	<u>170 369</u>	<u>91 170</u>	<u>790 471</u>
EXPENDITURES: (DETAIL PAGES 19 & 20)			
City council	12 468	-	-
Mayor	1 546	-	-
Elections	655	-	-
General services	60 262	-	-
Fire department	12 148	-	-
Sanitation	5 787	-	-
Parks	34 920	-	-
Highways and streets	-	108 440	-
Law enforcement	18 403	613	-
Utility expenses	-	-	821 201
Services to other funds	1 097	-	-
Administrative	14 923	-	-
TOTAL EXPENDITURES	<u>162 209</u>	<u>109 053</u>	<u>821 201</u>
EXCESS REVENUES (EXPENDITURES)	<u>8 160</u>	<u>( 17 883)</u>	<u>( 30 730)</u>
OTHER FINANCING SOURCES (USES):			
Incoming transfers	-	15 000	40 300
Outgoing transfers	( 15 000)	-	( 40 300)
TOTAL OTHER FINANCING SOURCES (USES)	<u>( 15 000)</u>	<u>15 000</u>	<u>-</u>
EXCESS REVENUES AND OTHER SOURCES (EXPENDITURES & OTHER USES)	<u>( 6 840)</u>	<u>( 2 883)</u>	<u>( 30 730)</u>
FUND BALANCES, beginning of year	<u>358 455</u>	<u>76 413</u>	<u>2 349 108</u>
FUND BALANCES, end of year	<u>\$ 351 615</u>	<u>\$ 73 530</u>	<u>\$2 318 378</u>

See notes to financial statements.



CITY OF STEPHENSON  
COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL AND SPECIAL REVENUE FUNDS  
YEAR ENDED JUNE 30, 2006

	General Fund		Variance
	Actual Amount	Budget Amount	Favorable (Unfavorable)
CASH REVENUES:			
Property taxes			
- Current and in-lieu	\$ 53 624	\$ 50 400	\$ 3 224
- Collection fees	5 198	3 000	2 198
- Delinquent	5 731	-	5 731
State shared taxes	74 720	75 525	( 805)
State grants - Motor Vehicle Highway Fund	-	-	-
Liquor law enforcement	-	-	-
Interest	7 024	2 000	5 024
Fines	574	350	224
Services rendered and rents	12 045	14 050	( 2 005)
Other reimbursements & misc.	3 156	1 400	1 756
Metro act	8 297	-	8 297
TOTAL REVENUES	<u>170 369</u>	<u>146 725</u>	<u>23 644</u>
EXPENDITURES:			
City council	12 468	16 071	3 603
Mayor	1 546	1 900	354
Elections	655	1 400	745
General services	60 262	56 201	( 4 061)
Fire department	12 148	13 173	1 025
Sanitation	5 787	6 239	452
Parks	34 920	39 050	4 130
Highways and streets	-	-	-
Law enforcement	18 403	20 145	1 742
Services from other funds	1 097	1 097	-
Administrative	14 923	14 027	( 896)
TOTAL EXPENDITURES	<u>162 209</u>	<u>169 303</u>	<u>7 094</u>
EXCESS REVENUES (EXPENDITURES)	8 160	( 22 578)	30 738
OTHER FINANCING SOURCES (USES):			
Incoming transfers	-	-	-
Outgoing transfers	( 15 000)	( 15 000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>( 15 000)</u>	<u>( 15 000)</u>	<u>-</u>
EXCESS REVENUE AND OTHER SOURCES (EXPENDITURES & OTHER USES)	( 6 840)	( 37 578)	30 738
FUND BALANCES, beginning of year	<u>358 455</u>	<u>358 455</u>	<u>-</u>
FUND BALANCES, end of year	<u>\$ 351 615</u>	<u>\$ 320 877</u>	<u>\$ 30 738</u>

See notes to financial statements.

Special Revenue Funds		
Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
88 573	87 000	1 573
613	-	613
1 499	-	1 499
-	-	-
-	-	-
485	-	485
-	-	-
<u>91 170</u>	<u>87 000</u>	<u>4 170</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
108 440	134 581	26 141
613	613	-
-	-	-
-	-	-
<u>109 053</u>	<u>135 194</u>	<u>26 141</u>
( 17 883)	( 48 194)	30 311
15 000	15 000	-
-	-	-
<u>15 000</u>	<u>15 000</u>	<u>-</u>
( 2 883)	( 33 194)	30 311
<u>76 413</u>	<u>76 413</u>	<u>-</u>
\$ 73 530	\$ 43 219	\$ 30 311

CITY OF STEPHENSON  
STATEMENTS OF REVENUES AND EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
UTILITY FUND  
YEAR ENDED JUNE 30, 2006

	Electric Fund	Sewer Fund	Water Fund
OPERATING REVENUES:			
Charges for services:			
Electric and sales tax	\$ 469 746	\$ -	\$ -
Sewer	-	157 702	-
Water	-	-	107 327
Service charges and rents	6 183	1 623	669
Reimbursements and refunds	8 019	4 456	5 104
TOTAL OPERATING REVENUES	<u>483 948</u>	<u>163 781</u>	<u>113 100</u>
OPERATING EXPENDITURES:			
(Detail of Pages 25-26)			
Electric	524 222	-	-
Sewer - collection	-	9 809	-
Sewer - operating	-	173 537	-
Water	-	-	75 068
TOTAL OPERATING EXPENDITURES	<u>524 222</u>	<u>183 346</u>	<u>75 068</u>
OPERATING INCOME (LOSS)	( 40 274)	( 19 565)	38 032
NONOPERATING REVENUES			
(EXPENDITURES):			
Interest income	20 034	3 042	6 566
Interest on bonds	-	( 16 538)	( 22 027)
Incoming (outgoing) transfers	<u>( 40 300)</u>	<u>40 300</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ ( 60 540)	\$ 7 239	\$ 22 571
RETAINED EARNINGS, at beginning of period	<u>1 239 672</u>	<u>814 271</u>	<u>295 165</u>
RETAINED EARNINGS, at end of period	<u>\$ 1 179 132</u>	<u>\$ 821 510</u>	<u>\$ 317 736</u>

See notes to financial statements.

CITY OF STEPHENSON  
STATEMENTS OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006

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	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (60 540)	\$ 7 239	\$ 22 571
Non-cash expenses included in net income:			
Depreciation	22 461	39 572	15 723
Increase in accounts payable- (receivable)	<u>( 1 745)</u>	<u>4 797</u>	<u>2 373</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(39 824)</u>	<u>51 608</u>	<u>40 667</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in property, plant and equipment - (net)	-	(40 598)	-
Increase (decrease) in bonds issued	<u>-</u>	<u>( 5 000)</u>	<u>( 7 000)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>-</u>	<u>(45 598)</u>	<u>( 7 000)</u>
NET INCREASE (DECREASE) IN CASH	( 39 824)	6 010	33 667
CASH, BEGINNING OF YEAR	<u>833 029</u>	<u>94 605</u>	<u>214 059</u>
CASH, END OF YEAR	<u>\$ 793 205</u>	<u>\$ 100 615</u>	<u>\$ 247 726</u>

See notes to financial statements.

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ACCOUNTING POLICIES

Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

All of the funds of the City are accounted for using the modified accrual basis, wherein revenues are recognized when they become susceptible to accrual (i.e. when they become both measurable and available to finance expenditures of the current period) and expenditures are generally recognized when the related fund liability is incurred when certain exceptions such as interest on long-term debt which is generally recognized when due.

Fund Accounting

The major focus of a governmental accounting and reporting system is to show adherence to applicable legal provisions, and to determine fairly and with full disclosure the financial position and results of financial operations of each accounting entity within a governmental unit.

In accordance with the above criteria, the accounts of the City of Stephenson are organized on a basis of individual funds or account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate, self-balancing set of accounts that comprise its assets, liabilities, equities, revenues, and expenditures or expenses as appropriate. Governmental resources are allocated to an account for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statement in this report, into fund categories as follows:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Enterprise Fund - Enterprise Funds report activities that are financed primarily by user charges. The City's Utility Fund is an Enterprise Fund.

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ACCOUNTING POLICIES

General Fixed Assets (Continued)

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held in trust or as an agent for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

General Fixed Assets Account Group

This account group presents the fixed assets of the City. General Fixed Assets purchased are recorded as expenditures in their respective funds. Such assets are capitalized at cost in the general fixed asset group.

PROPERTY, PLANT, AND EQUIPMENT - UTILITY FUNDS

Fixed assets consisting of property plant and equipment are carried at cost. Depreciation is calculated over the estimated useful life of the fixed assets using the straight-line method. The City has elected to decrease contributions in aid of construction by the corresponding purchase of assets purchased by contributed capital.

Budgets and Budgetary Accounting

As set forth in the City Charter, the City adopts annual budgets for the General Fund and Special Revenue Funds. The annual budgets are prepared in accordance with the basis of accounting utilized by those funds. The City Council is authorized to transfer budgeted amounts within and among departments. Subsequent to year-end, the Council adopts an amended budget approving any transfers among departments or additional expenditures. The amended budgets are presented on page 7. All appropriations lapse at fiscal year-end.

NOTE 2- DESCRIPTION OF RECORDING ENTITY

The City of Stephenson is located in Menominee County and provides services to its residents in many areas including community enrichment and development, and human services. In accordance with the provisions of NCGA Statement 3, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by the NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the City. Educational services are provided through the Stephenson Area School System which is a separate governmental entity and, therefore, not presented in the financial statements included herein.

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 3 - STATEMENT OF REVENUES AND EXPENDITURES - BUDGET  
AND ACTUAL - GENERAL FUND

The above supplemental statement is not required in these statements because the combined statement on page 7 is detailed to the required revenue and activity level as shown in the Uniform Accounting Procedures Manual for Local Units of Government in Michigan.

NOTE 4 - CASH AND INTEREST-BEARING DEPOSITS

Deposits are carried at cost. Deposits of the City are in several banks in the name of the City of Stephenson. Michigan complied Laws, Section 124.91, authorizes the City Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreement; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rates by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The City's deposits are in accordance with statutory authority, and they have approved an investment and cash policy.

Governmental Accounting Standards Board (GASB) Statement No. 3 Risk Disclosure for the City's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured	\$ 700 000
Non-insured	<u>886 306</u>
TOTAL DEPOSITS	<u>\$ 1 586 306</u>

NOTE 5 - PROPERTY TAX LEVY

The City levies taxes on a general law basis. The taxes included in these financial statements are the 2005 levy and are billed on a once per year basis. See schedules on page 22 for levy breakdown and millage rates. All unpaid taxes become delinquent March 1, of the following year. The City bills and collects its own property taxes. City property tax revenues are recognized when collected on the cash basis. All real property taxes are turned over to the County when delinquent and personal property taxes are collected and distributed by

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 5 - PROPERTY TAX LEVY (Continued)

the City. The County uses a revolving tax fund and reimburses the City yearly for any delinquent real property taxes.

A statewide referendum commonly known as Proposal A, took effect in 1994. Under this law, a new term, "Taxable Value", has been created. Proposal A limits annual increases in taxable value of property to the lesser of 5% or the rate of inflation. Initial taxable values, for 1994, were equal to state equalized values in that year.

NOTE 6 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 7 - CASH FLOW INFORMATION

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases insurance coverage through a carrier. This plan purchases reinsurance for all risks. The City's expense is to pay only the annual premium. In addition, the City purchases worker's compensation insurance through the Accident Fund of Michigan.



CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 9 - SEWER REVENUE BONDS PAYABLE

The sewer revenue bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2006 the required amount in this fund was \$24,060 and \$24,060 was on deposit. The original issue amount was \$400,000 for Sewer Fund construction.

BOND ISSUE NO. 1

4 1/2% SEWER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2006</u>
9/1/2003 thru 9/1/2006	\$ 5 000	\$ 5 000
9/1/2007 thru 9/1/2010	6 000	24 000
9/1/2011 thru 9/1/2013	7 000	21 000
9/1/2014 thru 9/1/2016	8 000	24 000
9/1/2017 thru 9/1/2019	9 000	27 000
9/1/2020 thru 9/1/2021	10 000	20 000
9/1/2022 thru 9/1/2023	11 000	22 000
9/1/2024 thru 9/1/2025	12 000	24 000
9/1/2026 thru 9/1/2027	13 000	26 000
9/1/2028	14 000	14 000
9/1/2029 thru 9/1/2030	15 000	30 000
9/1/2031	16 000	16 000
9/1/2032 thru 9/1/2033	17 000	34 000
9/1/2034	18 000	18 000
9/1/2035	19 000	19 000
9/1/2036	20 000	20 000
9/1/2037	21 000	21 000
Total Bond Issue No. 1		<u>\$ 365 000</u>

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 10 - WATER BONDS PAYABLE

The water bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2006 the required amount in this fund was \$24,120 and \$24,120 was on deposit. The original issue amount was \$572,000 for Water Fund construction.

WATER BOND ISSUE NO. 1

4 1/2% WATER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2006</u>
9/1/2005 thru 9/1/2007	\$ 7 000	\$ 14 000
9/1/2008 thru 9/1/2010	8 000	24 000
9/1/2011 thru 9/1/2012	9 000	18 000
9/1/2013 thru 9/1/2015	10 000	30 000
9/1/2016 thru 9/1/2017	11 000	22 000
9/1/2018 thru 9/1/2019	12 000	24 000
9/1/2020 thru 9/1/2021	13 000	26 000
9/1/2022	14 000	14 000
9/1/2023 thru 9/1/2024	15 000	30 000
9/1/2025	16 000	16 000
9/1/2026 thru 9/1/2027	17 000	34 000
9/1/2028 thru 9/1/2029	19 000	38 000
9/1/2030	20 000	20 000
9/1/2031	21 000	21 000
9/1/2032	22 000	22 000
9/1/2033	23 000	23 000
9/1/2034	24 000	24 000
9/1/2035	25 000	25 000
9/1/2036	26 000	26 000
9/1/2037	27 000	27 000
9/1/2038 thru 9/1/2039	29 000	8 000
Total		<u>\$ 486 000</u>

CITY OF STEPHENSON  
COMBINED BALANCE SHEET - UTILITY FUNDS  
JUNE 30, 2006

	<u>Electric Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 615 585	\$ 14 666	\$ 210 79
Accounts receivable	<u>48 456</u>	<u>13 431</u>	<u>8 219</u>
TOTAL CURRENT ASSETS	<u>664 041</u>	<u>28 097</u>	<u>219 010</u>
PROPERTY, PLANT & EQUIPMENT:			
Land	11 800	800	-
Plant and equipment	<u>537 290</u>	<u>1 611 078</u>	<u>655 359</u>
Total	549 090	1 611 878	655 359
Less accumulated depreciation	<u>(177 088)</u>	<u>( 524 954)</u>	<u>(103 797)</u>
Net Property, Plant & Equipment	<u>372 002</u>	<u>1 086 924</u>	<u>551 562</u>
RESTRICTED ASSETS:			
Funded equipment	177 620	61 889	12 815
Bond and interest reserve accounts	<u>-</u>	<u>24 060</u>	<u>24 120</u>
TOTAL RESTRICTED ASSETS	<u>177 620</u>	<u>85 949</u>	<u>36 935</u>
TOTAL ASSETS	<u>\$1 213 663</u>	<u>\$1 200 970</u>	<u>\$ 807 507</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 34 531	\$ 14 460	\$ 3 771
Bonds payable	<u>-</u>	<u>365 000</u>	<u>486 000</u>
TOTAL LIABILITIES	<u>34 531</u>	<u>379 460</u>	<u>489 771</u>
<u>RETAINED EARNINGS</u>			
RETAINED EARNINGS - UNRESTRICTED	\$1 001 512	\$ 735 561	\$ 280 801
RETAINED EARNINGS - RESTRICTED	<u>177 620</u>	<u>85 949</u>	<u>36 935</u>
TOTAL RETAINED EARNINGS	<u>1 179 132</u>	<u>821 510</u>	<u>317 736</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$1 213 663</u>	<u>\$1 200 970</u>	<u>\$ 807 507</u>

CITY OF STEPHENSON  
COMBINED BALANCE SHEET - SPECIAL REVENUE FUNDS  
JUNE 30, 2006

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	Major Street Fund	Local Street Fund	Liquor Fund
<u>ASSETS:</u>			
CASH	\$ 63 624	\$ 11 159	\$ -
ACCOUNTS RECEIVABLE	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 63 624</u>	<u>\$ 11 159</u>	<u>\$ -</u>
LIABILITIES - ACCOUNTS PAYABLE	685	568	-
FUND BALANCES	<u>62 939</u>	<u>10 591</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 63 624</u>	<u>\$ 11 159</u>	<u>-</u>

See notes to financial statements.

CITY OF STEPHENSON  
COMPARATIVE BALANCE SHEETS - UTILITY FUNDS  
JUNE 30, 2005 AND 2006

<u>ASSETS</u>	<u>Year Ended 2005</u>	<u>June 30, 2006</u>
PROPERTY, PLANT AND EQUIPMENT (Note 2):		
Property, plant and equipment	\$ 2 775 729	\$ 2 816 327
Less accumulated depreciation	( 728 083)	( 805 839)
Net property and equipment	<u>2 047 646</u>	<u>2 010 488</u>
RESTRICTED ASSETS:		
Bond and Interest Redemption Fund - Cash	42 780	48 180
Funded Equipment - Cash	<u>260 112</u>	<u>252 324</u>
Total restricted assets	<u>302 892</u>	<u>300 504</u>
CURRENT ASSETS:		
Cash on deposit	838 801	841 042
Accounts Receivable	<u>62 696</u>	<u>70 106</u>
TOTAL ASSETS	<u>\$ 3 252 035</u>	<u>\$ 3 222 140</u>
 <u>LIABILITIES, DEFERRED CREDITS AND RETAINED EARNINGS</u>		
RETAINED EARNINGS	\$ 2 349 108	\$ 2 318 378
LONG-TERM DEBT (Note 2):		
Revenue bonds payable - noncurrent portion	851 000	839 000
CURRENT LIABILITIES:		
Maturing bonds payable (Due January 1, 2006)	12 000	12 000
Accounts payable	<u>39 927</u>	<u>52 762</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 3 252 035</u>	<u>\$ 3 222 140</u>

CITY OF STEPHENSON  
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES - UTILITY FUNDS  
YEAR ENDED JUNE 30, 2005 AND 2006

	Year Ended 2005	June 30, 2006
OPERATING REVENUES:		
Charges for services:		
Electric and sales tax	\$ 427 081	\$ 469 746
Sewer	156 756	157 702
Water	100 051	107 327
Service charges and rents	970	8 475
Reimbursements and refunds	32 744	17 579
TOTAL OPERATING REVENUES	<u>717 602</u>	<u>760 829</u>
OPERATING EXPENDITURES:		
Electric	484 903	524 222
Sewer - collection	15 448	9 809
Sewer - operating	174 101	173 537
Water	84 201	75 068
TOTAL OPERATING EXPENDITURES	<u>758 653</u>	<u>782 636</u>
OPERATING INCOME (LOSS)	( 41 051)	( 21 807)
NONOPERATING INCOME (EXPENDITURES):		
Interest income	18 025	29 642
Interest on bonds	( 39 083)	( 38 565)
EXCESS OF REVENUES OVER EXPENDITURES	\$ 62 109	\$ ( 30 730)
RETAINED EARNINGS, at beginning of period	<u>2 411 217</u>	<u>2 349 108</u>
RETAINED EARNINGS, at end of period	<u>\$ 2 349 108</u>	<u>\$ 2 318 378</u>

CITY OF STEPHENSON  
COMBINED STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL SPECIAL REVENUE FUNDS  
YEAR ENDED JUNE 30, 2006

	Major Street Fund	Local Street Fund	Liquor Fund
REVENUES:			
State grants	\$ 67 542	\$ 21 031	\$ -
Liquor law fees	-	-	613
Reimbursements & misc.	370	115	-
Interest income	1 278	221	-
TOTAL REVENUES	<u>69 190</u>	<u>21 367</u>	<u>613</u>
EXPENDITURES:			
Routine maintenance:			
Salaries	5 519	2 268	-
Traffic services & nonmotorized	634	18	-
Maintenance	6 033	2 976	-
Equipment rent to General Fund	2 792	671	-
Insurance	719	358	-
Payroll taxes & fringe benefits	2 993	1 133	-
Utilities - to Electric Fund	-	-	-
Professional & contract services	882	63	-
Equipment rental	69	-	-
Capital outlay	-	-	-
Winter maintenance:			
Salaries	5 808	3 560	-
Repairs and maintenance	1 592	568	-
Insurance	710	349	-
Equipment rent to General Fund	4 776	3 756	-
Professional and contract	33	33	-
Equipment rental	-	-	-
Payroll taxes & fringe benefits	2 753	1 662	-
Capital outlay	-	-	-
Construction:			
Street const. & contract serv.	-	-	-
Professional services	23 681	33	-
Bridge construction	31 998	-	-
Law enforcement	-	-	613
TOTAL EXPENDITURES	<u>90 992</u>	<u>17 448</u>	<u>613</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	( 21 802)	3 919	-
OTHER FINANCING SOURCES (USES):			
Incoming (outgoing) transfers -			
- Local Streets	-	-	-
- General Fund	15 000	-	-
EXCESS REVENUES (EXPENDITURES) AND OTHER SOURCES	( 6 802)	3 919	-
FUND BALANCE, at beginning of period	<u>69 741</u>	<u>6 672</u>	<u>-</u>
FUND BALANCE, at end of period	<u>\$ 62 939</u>	<u>\$ 10 591</u>	<u>\$ -</u>

See notes to financial statements.

CITY OF STEPHENSON  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL FIDUCIARY FUND TYPES  
JUNE 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>ASSETS</u>				
Cash	\$ 8 415	\$ 362 314	\$ 360 990	\$ 9 739
TOTAL ASSETS	<u>\$ 8 415</u>	<u>\$ 362 314</u>	<u>\$ 360 990</u>	<u>\$ 9 739</u>
 <u>LIABILITIES</u>				
Due to other taxing units:				
State of Michigan	\$ 315	\$ 4 301	\$ 4 277	\$ 339
withholding	8 100	4 300	3 000	9 400
Customer deposits	-	58 988	58 988	-
City of Stephenson	-	97 398	97 398	-
Menominee County	-			
Intermediate School	-	24 664	24 664	-
District	-	106 911	106 911	-
Stephenson Area Schools	-	65 752	65 752	-
State of Michigan-S.E.T.	-			-
TOTAL LIABILITIES	<u>\$ 8 415</u>	<u>\$ 362 314</u>	<u>\$ 360 990</u>	<u>\$ 9 739</u>



CITY OF STEPHENSON  
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS  
GENERAL FIXED ASSETS ACCOUNT GROUP  
YEAR ENDED JUNE 30, 2006

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	Balance July 1, 2005	(Deletions) Additions	Balance June 30, 2006
ASSETS:			
Office and D.P.W. Building	\$ 163 461	\$ -	\$ 163 461
Office equipment & fixtures	11 809	498	12 307
Equipment - streets	122 438	16 240	138 678
Recreation equipment	438 524	15 050	453 574
General equipment	70 773	-	70 773
Law enforcement	26 612	4 104	30 716
Sanitation equipment	5 300	-	5 300
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 838 917	\$ 35 892	\$ 874 809
	<hr/>	<hr/>	<hr/>

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES -  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2006

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	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
CITY COUNCIL:			
Salaries	\$ 1 290	\$ 1 200	\$ ( 90)
Community promotion	6 336	6 000	( 336)
Printing and publishing	691	650	( 41)
Insurance	620	821	201
Miscellaneous and travel	2 569	1 000	( 1 569)
Capital outlay and radio tower	495	400	( 95)
Sidewalk repair and curb cuts	467	6 000	5 533
Total	<u>12 468</u>	<u>16 071</u>	<u>3 603</u>
MAYOR - salary & travel	<u>1 546</u>	<u>1 900</u>	<u>354</u>
ELECTIONS:			
Salaries	573	400	( 173)
Printing, supplies & misc.	82	1 000	918
Total	<u>655</u>	<u>1 400</u>	<u>745</u>
GENERAL SERVICES:			
City Attorney - legal fees	2 678	2 000	( 678)
Assessor - salary & expenses	6 749	6 600	( 149)
Administrative and bookkeeper - salary & expenses	17 387	16 400	( 987)
Board of Review	432	550	118
Treasurer - salary & expenses	5 923	5 619	( 304)
Building inspector - salary expenses	2 281	3 960	1 679
Zoning and miscellaneous	1 056	1 100	44
Streets vehicle expense	23 621	19 472	( 4 149)
Surveyor and appraisal fees	135	500	365
Total	<u>60 262</u>	<u>56 201</u>	<u>( 4 061)</u>
FIRE DEPARTMENT:			
Education	-	300	300
Insurance	4 253	5 219	966
Utilities and phone	2 345	1 766	( 579)
Maintenance and fuel	1 300	1 638	338
Capital outlay	4 250	4 250	-
Total	<u>12 148</u>	<u>13 173</u>	<u>1 025</u>

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES -  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2006

	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
<b>SANITATION:</b>			
Salaries	\$ 2 815	\$ 2 237	\$ ( 578)
Payroll tax & benefits	1 402	1 633	231
Repairs & contract labor	1 156	1 700	544
Pit rental	-	400	400
Miscellaneous & Capital outlay	414	269	( 145)
Total	5 787	6 239	452
<b>PARKS:</b>			
Salaries	8 784	8 500	( 284)
Payroll tax & fringe benefits	4 485	5 077	592
Insurance	1 206	1 322	116
Capital outlay	16 845	15 670	( 1 175)
Maintenance, utilities & misc.	3 600	8 481	4 881
Total	34 920	39 050	4 130
<b>LAW ENFORCEMENT</b>			
Salaries and operating expenses	14 299	17 645	3 346
Capital outlay	4 104	2 500	( 1 604)
Total	18 403	20 145	1 742
<b>ADMINISTRATIVE:</b>			
Office supplies and website	2 858	2 600	( 258)
Repairs - municipal building	5 507	5 220	( 287)
Audit fees	2 000	2 100	100
Telephone	808	1 035	227
Insurance	790	1 042	252
Dues	1 733	1 030	( 703)
Capital outlay & equipment	762	1 000	238
Metro wages and benefits	465	-	( 465)
Total	14 923	14 027	( 896)
<b>SERVICES TO OTHER FUNDS:</b>			
Electric Fund	\$ 1 097	\$ 1 097	\$ -
Total	1 097	1 097	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 162 209</b>	<b>\$ 169 303</b>	<b>\$ 7 094</b>
<b>OUTGOING TRANSFERS:</b>			
Transfer to Major Streets	\$ 15 000	\$ 15 000	\$ -

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES  
UTILITY FUND  
YEAR ENDED JUNE 30, 2006

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ELECTRIC

Purchase of electricity	\$ 407 983
Depreciation expense	22 461
Salaries	35 807
Payroll taxes	2 630
Fringe benefits	12 161
Office supplies	3 622
Maintenance and supplies	13 415
Contract service	430
Transportation - gas	1 579
Truck maintenance	1 300
Insurance	2 481
Heat and telephone	1 797
Dues and fees	1 477
sales tax	16 925
Rentals	66
Training and miscellaneous	88
	<hr/>
Total operating expenses	524 222
	<hr/>
Outgoing transfers - Transfer to Sewer Fund	40 300
	<hr/>

SEWER - COLLECTION

Salaries	2 320
Payroll taxes	168
Fringe benefits	1 265
Worker's compensation & insurance	620
Maintenance and supplies	1 008
Depreciation expense	3 957
Miscellaneous and training	471
	<hr/>
Total	9 809
	<hr/>

SEWER - OPERATING

Salary	653
Payroll taxes	50
Fringe benefits	277
Insurance	1 203
Contract services	131 000
Depreciation	35 615
Repairs and maintenance	2 219
Licenses	2 520
	<hr/>
Total	173 537
	<hr/>

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES  
UTILITY FUND  
YEAR ENDED JUNE 30, 2006

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WATER	
Salaries	\$ 25 976
Payroll taxes	1 884
Fringe benefits	11 420
Maintenance, supplies and rents	7 713
Contract services	2 163
Transportation	470
Insurance	1 775
Utilities and telephone	4 550
Sample testing	2 452
Miscellaneous and training	942
Depreciation	<u>15 723</u>
Total	<u>75 068</u>
TOTAL EXPENDITURES	\$ 822 936

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CITY OF STEPHENSON  
ASSESSED VALUATION, TAX RATES AND TAX LEVIES  
YEAR ENDED JUNE 30, 2006

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	<u>Stephenson Area Public Schools</u>	<u>Menominee County</u>	<u>Intermediate Schools</u>
Taxable valuation	\$ 11 746 180	\$11 746 180	\$11 746 180
Millage rate	21.6854	8.8897	2.2797
Levy	\$ 114 118	\$ 104 529	\$ 26 806
Less - returned delinquent	<u>( 8 928)</u>	<u>( 8 613)</u>	<u>( 2 336)</u>
Current tax collection	<u>\$ 105 190</u>	<u>\$ 95 916</u>	<u>\$ 24 470</u>

<u>City of Stephenson</u>	<u>State of Michigan S.E.T.</u>
\$ 11 746 180	\$ 11 746 180
5.0000	6.0000
\$ 58 797	\$ 70 556
<u>( 5 124 )</u>	<u>( 4 804 )</u>
<u>\$ 53 673</u>	<u>\$ 65 752</u>

RAYMOND L. PAYMENT  
CERTIFIED PUBLIC ACCOUNTANT

617 LUDINGTON STREET  
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FAX: 906-786-8521

July 21, 2006

PROFESSIONAL BUILDING  
STEPHENSON, MICHIGAN 49887  
PHONE: 906-753-4700

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
"GOVERNMENT AUDITING STANDARDS"

Honorable City Council  
City of Stephenson  
Stephenson, Michigan

I have audited the general purpose financial statements of the City of Stephenson as of and for the year ended June 30, 2006, and have issued my report thereon dated July 21, 2006. I conducted my audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Stephenson's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

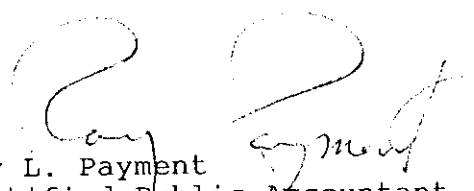
In planning and performing my audit I considered the City of Stephenson's internal control over financial reporting in order to determine my audit procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matter in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce



July 21, 2006

to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ray L. Payment  
Certified Public Accountant